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C O N F I D E N T I A L SECTION 01 OF 02 TASHKENT 001140

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SUBJECT: COSCOM CAUTIOUSLY OPTIMISTIC ABOUT FUTURE

REF: TASHKENT 769 AND PREVIOUS

Classified By: CDA BRAD HANSON FOR REASONS 1.4 (B, D)

¶1. (C) Summary: In the past month, the Uzbekistan Agency for Communications and Information Technology (the Telecom Agency) and other authorities have quietly dropped their legal and administrative complaints against U.S. majority-owned cellular provider COSCOM. The company has recovered most of the subscribers that it lost as a result of a government-imposed suspension of its operations earlier in the year, and management reports that recent undue government pressure on the company to sell its operations to a particular pre-selected bidder has now stopped. Among the possible reasons for the improvement in the situation, in COSCOM's view, were the counterattacks the company mounted in the courts and in the press, as well as political pressure brought to bear by the USG. COSCOM's American parent company, MCT Corporation, continues to seek a buyer for its Central Asian subsidiaries, but it now faces much less pressure from Uzbek officials. End summary.

¶2. (C) On June 12, the Amcit General Director of U.S. majority-owned cellular communications firm COSCOM told Pol-Econoff that all legal claims between the firm and the Government of Uzbekistan have been resolved in COSCOM's favor. Beginning in mid-2006, various government agencies launched legal and regulatory actions against the company (reftel). The State Tax Authority accused it of evading \$23 million in taxes on income from international roaming charges. The State Telecommunications Inspection Service accused COSCOM of changing its name without properly notifying the authorities and earning income illegally while it was awaiting re-registration under a new name. The Tax Authority sued for \$2 million in taxes on the alleged illegal income. COSCOM's director said that in these cases, the economic courts have consistently decided in COSCOM's favor, and there are now no additional cases on the horizon.

¶3. (C) Since late 2006, the Telecom Agency has repeatedly refused to grant permission for COSCOM to establish new regional transmitting stations to expand its national network. It has also denied permission for new subscriber phone numbers. COSCOM's director said, however, that while these restrictions impede COSCOM's subscriber growth, they do not impair its operations.

¶4. (C) The director said that the damage to COSCOM's

subscriber base caused by the government-imposed suspension of the firm's operations in February and March has been mostly repaired. During the ten-day suspension in February and the following two months when the Telecom Agency allowed only gradual restoration of the company's service, the number of subscribers dropped to a low of approximately 360,000; since then, the number has rebounded to over 400,000.

15. (C) The director said that COSCOM's legal troubles began in earnest soon after its Virginia-based parent company, MCT Corporation, began acquisition talks with the Qatari national telecom firm Q-Tel. At that time, government interlocutors strongly pressured MCT to sell instead to a Russian investor.

After the suspension of COSCOM's license in February, Q-Tel directors broke off talks with MCT, recognizing that they risked purchasing a permanently impaired asset. Subsequently, according to COSCOM's director, government pressure eased considerably, and threats of new lawsuits died away. However, there has been no further pressure from the Government for MCT to sell its business to a particular investor. As reported reftel, the Turkish-Scandinavian firm Fintur Holdings is negotiating to acquire MCT Corporation, and COSCOM along with it. However, according to COSCOM's director, there are other suitors as well, and the firm's fate is not yet sealed.

16. (C) COSCOM's director speculated on the reasons for the sudden improvement in the firm's situation. COSCOM believes that the Government's legal moves against the firm were orchestrated by the Telecom Agency, possibly in collusion with President Karimov's daughter, Gulnora, primarily for personal gain. However, he said, others in the Government supported COSCOM for other reasons and helped ensure that the

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company prevailed in court. COSCOM had in some cases raised the stakes by taking its case to the news media, filing countersuits against the Tax Authority, and pleading its case to the USG, which in turn raised it with Uzbek officials in both Tashkent and Washington. When the attacks on COSCOM began to backfire, the Tax Authority and other agencies were no longer willing to expose themselves to the financial and other costs involved in a lengthy and public legal battle.

17. (C) In recent days, articles on Russian news websites have raised further concerns about COSCOM's situation. On June 7, the Russian technology news website CNews.ru reported that "insufficient capital investment" by COSCOM had led to serious overloading of the company's network, and as a result, the company risked having its license suspended again. COSCOM's director told Pol-Econoff that the story is nonsense, most likely planted in the press by a Russian actor interested in feeding a destructive rumor mill. He said that COSCOM brought the stories to the attention of its contacts at the Telecom Agency, who expressed surprise and promised to help dispel the rumors.

18. (C) Comment: Having weathered a storm which at its height seemed hopeless, COSCOM's management is now cautiously optimistic that the company will remain afloat. The fact that the Telecom Agency and related authorities abandoned their attacks on COSCOM so quickly lends credence to the theory that the pressure on the company was not motivated by an Uzbek political bias against American companies, but rather by simple greed.

HANSON